

CREDIT CARDS



A mini-lesson for:

secondary school teachers
adult and community educators
students and consumers

This mini-lesson includes learning objectives, background information, discussion questions, an activity and sources of additional information.

OBJECTIVES

- learn the types of credit card accounts and the uses and payment methods of each
- understand how to shop for a credit card
- read and interpret a credit card statement
- understand how to handle billing errors

What Exactly Is a Credit Card?

Let's start at the beginning. A credit card is a thin plastic card, usually 3-1/8 inches by 2-1/8 inches in size, that contains identification information such as a signature or picture, and authorizes the person named on it to charge purchases or services to his account -- charges for which he will be billed periodically. Today, the information on the card is read by automated teller machines (ATMs <http://www.howstuffworks.com/atm.htm>), store readers, and bank and Internet computers.

How Long Have Credit Cards Been Around?

According to the Encyclopedia Britannica, the use of credit cards originated in the U.S. during the 1920s, when individual companies, such as hotel chains and oil companies, began issuing them to customers for purchases made at their businesses. This use increased significantly after World War II.

The first universal credit card -- one that could be used at a variety of stores and businesses -- was introduced by Diners' Club, Inc., in 1950. With this system, the credit card company charged card holders an annual fee and billed them on a monthly or yearly basis. Another major universal card -- the one with the famous TV commercial ("Don't leave home without it!") -- was established in 1958 by the American Express Co.

Later came the bank credit card system. Under this plan, the bank credits the account of the merchant as sales slips are received (this meant merchants were paid quickly -- something they loved!) and assembles charges to be billed to the card holder at the end of the billing period. The card holder, in turn, pays the bank either the entire balance or in monthly installments with interest (sometimes called carrying charges).

The first national bank plan was BankAmericard, which was started on a statewide basis in 1959 by the Bank of America in California. This system was licensed in other states starting in 1966 and renamed Visa in 1976.

Other major bank cards followed, including MasterCard, formerly Master Charge. In order to offer expanded services, such as meals and lodging, many smaller banks that earlier offered credit cards on a local or regional basis formed relationships with large national or international banks.

What Do the Numbers on a Credit Card Mean?

Although phone, gas, and department stores have their own numbering systems, ANSI Standard X4.13-1983 is the system used by most national credit card systems. Here are what some of the numbers mean:

- The first digit in your credit card number signifies the system --

3=travel/entertainment cards (such as American Express and Diners' Club),
4=Visa,
5=MasterCard and
6=Discover Card.
- The structure of the card number varies by system. For example, American Express card numbers start with 37; Carte Blanche and Diners Club with 38.
- American Express: Digits 3-4 are type and currency, digits 5-11 are the account number, digits 12-14 are the card number within the account, and digit 15 is a check digit.
- Visa: Digits 2-6 are the bank number, digits 7-12 or 7-15 are the account number, and digit 13 or 16 is a check digit.
- MasterCard: digits 2-3, 2-4, 2-5 or 2-6 are the bank number (depending on whether digit 2 is a 1, 2, 3 or other). The digits after the bank number up through digit 15 are the account number, and digit 16 is a check digit.

What's the Stripe on the Back of the Card?

The stripe on the back of a credit card is a magnetic stripe, often called a magstripe. The

magstripe is made up of tiny iron-based magnetic particles in a plastic-like film. Each particle is really a very tiny bar magnet about 20 millionths of an inch long. The magstripe can be "written" because the tiny bar magnets can be magnetized in either a north or south pole direction. The magstripe on the back of the card is very similar to a piece of cassette tape fastened to the back of a card.

A magstripe reader (you may have seen one hooked to someone's PC at a bazaar or fair) can understand the information on the three-track stripe. If the ATM isn't accepting your card, your problem is probably either:

- Dirty or scratched magstripe
- Erased magstripe (The most common causes for erased magstripes are exposure to magnets, like the small ones used to hold notes and pictures on the refrigerator, and a store's electronic article surveillance (EAS) tag demagnetizer.)

What Information Is on the Stripe?

There are three tracks on the magstripe. Each track is .110-inch wide. The ISO/IEC standard 7811, which is used by banks, specifies:

- Track one is 210 bits per inch (bpi), and holds 79 six-bit plus parity bit read-only characters.
- Track two is 75 bpi, and holds 40 four-bit plus parity bit characters.
- Track three is 210 bpi, and holds 107 four-bit plus parity bit characters.

Your credit card typically uses only tracks one and two. Track three is a read/write track (that includes an encrypted PIN, country code, currency units, amount authorized), but its usage is not standardized among banks.

The information on track one is contained in two formats -- A, which is reserved for proprietary use of the card issuer, and B, which includes the following:

- Start sentinel -- 1 character
- Format code="B" -- 1 character (alpha only)
- Primary account number -- up to 19 characters
- Separator -- 1 character
- Country code -- 3 characters
- Name -- 2-26 characters
- Separator -- 1 character
- Expiration date or separator -- 4 characters or 1 character
- Discretionary data -- enough characters to fill out maximum record length (79 characters total)
- End sentinel -- 1 character
- Longitudinal Redundancy Check (LRC), a form of computed check character -- 1 character

The format for track two, developed by the banking industry, is as follows:

- Start sentinel -- 1 character
- Primary account number - up to 19 characters
- Separator -- 1 character
- Country code -- 3 characters
- Expiration date or separator -- 4 characters or 1 character
- Discretionary data -- enough characters to fill out maximum record length (40 characters total)
- LRC -- 1 character

How Is the Credit Card Authenticated?

There are three basic methods for determining that your credit card will pay for what you're charging:

- Merchants with few transactions each month do voice authentication, using a touch tone phone.
- Electronic data capture (EDC) magstripe card swipe terminals are becoming more common -- so is having you swipe your own card at the checkout.
- Virtual terminal on the Internet

This is how it works: After you or the cashier swipes your credit card through a reader, the EDC software at the point of sale (POS) terminal dials a stored telephone number via a modem to call an acquirer. An acquirer is an organization that collects credit authentication requests from merchants and provides a payment guarantee to the merchant.

When the acquirer company gets the credit card authentication request, it checks the transaction for validity and the record on the magstripe for:

- Merchant ID
- Valid card number
- Expiration date
- Credit card limit
- Card usage

Single dial-up transactions are processed at 1200-2400 bps, while direct Internet attachment uses much higher speeds via this protocol. In this system, the cardholder enters a personal identification number (PIN), using a keypad.

The PIN is not on the card -- it is encrypted (hidden in code) in a database. (For example, before you get cash from an ATM, the ATM encrypts the PIN and sends it to the database to see if there is a match.) The PIN can be either in the bank's computers in an encrypted form (as a cipher) or be encrypted on the card itself. The transformation used in this type of cryptography is called one-way. This means that it's easy to compute a cipher given the bank's key and the customer's PIN but not computationally feasible to obtain the plain text PIN from the cipher -- even if the key is known. This feature was designed to protect the card holder from being impersonated by someone who has access to the bank's computer files.

Likewise, the communications between the ATM and the bank's central computer are encrypted to prevent would-be thieves from tapping into the phone lines and recording the signals sent to

the ATM to authorize the dispensing of cash to a legitimate card user and then feeding the same signals to the ATM to trick it into unauthorized dispensing of cash.

Smart Cards

An innovative application that involves all aspects of cryptography (secret codes) – not just the authentication we just described -- is the "smart" credit card, which has a microprocessor, or tiny chip, built into the card itself. Cryptography is essential to the functioning of these cards in several ways. The user must corroborate his identity to the card each time a transaction is made in much the same way that a PIN is used with an ATM. The card and the card reader execute a sequence of encrypted sign/countersign-like exchanges to verify that each is dealing with a legitimate counterpart. Once this has been established, the transaction itself is carried out in encrypted form to prevent anyone, including the card holder or the merchant whose card reader is involved, from "eavesdropping" on the exchange and later impersonating either party to defraud the system. This elaborate protocol is conducted in such a way that it is transparent to the user, except for the necessity of entering a PIN to begin the transaction.

Smart Cards (<http://www.howstuffworks.com/question332.htm>) first saw general use in France in 1984. They are now hot commodities that are expected to replace the simple plastic cards most of us now use. Visa and MasterCard are leading the way in the United States with their Smart Card technologies.

The chips in these cards are capable of many kinds of transactions. For example, you could make purchases from your credit account, debit account, or from a stored account value that's reloadable. The enhanced memory and processing capacity of the Smart Card is many times that of traditional magnetic stripe cards and can accommodate several different applications on a single card. It can also hold identification information, keep track of your participation in an affinity (loyalty) program or provide access to your office. This means no more shuffling through cards in your wallet to find the right one -- the Smart Card will be the only one you need!

Experts say that internationally accepted Smart Cards will be increasingly available over the next several years. Many parts of the world already use them but their reach is limited. The Smart Card will eventually be available to anyone who wants one, but for now, it's only available to those participating in special programs. Your financial institution will contact you directly regarding new chip-enhanced services when they're available in your area. (If you're able to participate in one of these programs, you will receive your Smart Card from your bank or credit union, credit card issuer, or bank card association.)

Will I Qualify for a Credit Card?

There's no way to know if you'll qualify for a credit card without doing some research. Some of the basic things that lenders look for include:

- **Good payment record** -- If you pay your bills on time, you'll score major points with lenders. If you have a lot of late payments, this can hurt your chances of getting a card, and, if the lender decides to issue you a card, it's probably going to have a higher interest rate.
- **Control of debt load** -- Lenders generally want to see that you are a good credit risk and that you aren't living beyond your means. Experts say non-mortgage credit

payments each month should not exceed more than 10 or 15 percent of your take-home pay.

- **Signs of stability, responsibility** -- Lenders perceive things such longevity in your home and job (at least two years) as signs of stability. Having a respected profession doesn't hurt either.
- **Lack of credit inquiries** -- This is a little strange. Whenever you apply for a credit card, the lender will pull your credit report from one or more of the major bureaus as part of the approval process. Each time a report is pulled, it's marked as an inquiry and stays on your credit bureau report for two years. Lenders perceive several inquiries on your report as indications that you're scrambling for loans and may consider you a poor credit risk. So, in order to beat this system, don't allow every credit card issuer you speak with to pull your report. Just use approximations until you think you've arrived at the lender you want. Then, let that lender request your credit report.
- **Lack of available or unused credit** -- Did you know that having credit cards that you don't use -- and have a zero balance on -- can hurt your credit? The rationale here, experts say, is that if you have all this available credit lying around, you could run it up at any time (even if you never have). Get rid of the cards you don't use. Be sure to ask the credit reporting bureaus to remove the card from your report, noting that you -- not the creditor -- closed the account.

What Does the Financial Jargon on the Credit Card Application Form Mean?

Before we get into shopping for a card, let's go over some important terms you'll encounter in credit card brochures or discussions with potential lenders:

- **Annual fee** -- A flat, yearly charge similar to a membership fee. So many companies offer "no annual fee" cards today, though, that lenders who do charge them are often willing to waive the fee to keep your business.
- **Annual percentage rate (APR)** -- The yearly percentage rate of the finance charge.
- **Finance charge** -- The dollar amount you pay to use credit (Besides interest costs, it may include other charges, such as cash advance fees that are charged against your card when you borrow cash from the lender. (You generally pay higher interest on cash advances than on purchases -- check your latest bill!) .
- **Fixed rate** -- A fixed annual percentage rate of the finance charge.
- **Grace period** -- A time, about 25 days, during which you can pay your credit card bill without paying a finance charge (Under almost all credit card plans, the grace period only applies if you pay your balance in full each month. It does not apply if you carry a balance forward. Also, the grace period does not apply to cash advances.)
- **Interest rate** -- Interest rates on credit card plans change over time. Some are tied to changes in other interest rates, such as the prime rate or the Treasury Bill rate, and are called variable rate plans. Others are not explicitly tied to changes in other interest rates

and are called fixed rate plans.

- **Introductory rate** -- A temporary, lower APR that usually lasts for about six months before converting to the normal fixed or variable rate.
- **Variable rate** -- Prime rate (which varies) plus an added percentage (For example, your rate may be PR + 3.9 percent.)

How to Choose a Credit Card Plan and Card?

Experts say that if you're smart, you'll do the same kind of comparison shopping for a credit card that you do when you're looking for a mortgage or a car loan. This is a good idea because the choices you make can save you money. The process is not a simple one -- here are some tips that should help you get started:

Step 1: Do Some Research -- There are plenty of places, both online and offline, where you can read about credit card offerings and even get credit card ratings, but since rates and plans change so often, it's a good idea to call the institutions in which you're interested to confirm the information and to see if there are other plans that might work for you.

A reliable and non-commercial resource is the **Federal Reserve Board**, <http://www.federalreserve.gov>. And the non-profit consumer credit organization, **Citizens for Fair Credit Card Terms (CFCCT)**, <http://www.cardratings.org>, offers credit card ratings from its research. So do a lot of commercial organizations -- many of whom are also credit card issuers.)

Step 2: Make a List -- Make a list of credit card features that fits your financial needs and rank the features according to how you plan to use the card and pay your monthly bill.

Step 3: Review the Plans -- Review all of the information you've gathered on different plans. Pay special attention to the APR -- you want a low rate, but not necessarily the lowest. This is because -- depending on your lifestyle and payment habits -- you might benefit more from a card that offers cash rebates, discounts or frequent flier miles.

Step 4: Check Out Credit Unions -- Look into the possibility of joining a credit union; they are non-profit, have lower overhead and so charge lower interest rates (an average of 13.14 percent currently on a fixed rate card). Credit unions are newer to the credit industry so they are eager to generate credit card loans. However, you'll probably be required to open a share account or savings account to join.

And credit unions typically are limited to a particular employer and its employees. That's changing -- due to industry consolidations, credit unions are rapidly expanding their fields of membership. To find out which credit union you may be eligible to join, contact the **Credit Union National Association (CUNA)**, <http://www.cuna.org/data>, at (800) 358-5710.

Step 5: Compare Plans -- If you already have a credit card, be sure that you're making a good move before you swap cards. If you are a current card holder and have a good credit rating, see if the institution that issued your card will lower your current rate. Don't be afraid to negotiate!

Step 6: Deal with Credit Issues -- If you've had credit problems, you might have to settle for a card with a slightly higher rate. If you have poor credit or no credit, some banks will issue you a secured credit card. This means that you deposit money into a savings account that acts as collateral against your credit line.

The rate may be high, but a secured card offers you the convenience of a credit card while you work on rebuilding your credit. Secured cards are often the best option available to those with a bankruptcy in their past. Oh, and choose a secured card that pays you interest on your deposit! On the other hand, if you have a very good credit rating and would like a higher limit (\$5,000 or more), check into applying for a gold card at the same interest rates, but with a slightly higher annual fee. (Most gold cards require that your annual income be at least \$35,000. Platinum-level cards -- even higher!)

A word of caution about those "pre-approved" card offers you get in the mail: You may get an offer for a new credit card account with a pre-approved credit limit just slightly higher than your balance on your current card. The fine print could reveal an extremely high interest rate and also state that, by accepting the offer, you agree to transfer the entire balance of your other credit card account to the new, high-interest account. This is a trick, since you would never consciously choose to pay more interest each month. Read everything carefully so that you don't fall into this trap. (And before you toss this offer into the garbage, shred it so that no one can fish it out and try to impersonate you.)

No matter what kind of card and plan you choose, you should have access to the following information under the federal Truth in Lending Act so that you can compare one loan to another:

- Finance charges in dollars and as an annual percentage rate (APR)
- The credit issuer or company providing the credit line and the size of the credit line
- Length of grace period, if any, before payment must be made
- Minimum payment required
- Annual fees, if applicable
- Fees for credit insurance (if any), which pays off your loan if you die before the debt is fully repaid

See our Mini-Lesson on How to Choose a Credit Card

<http://www.in.gov/dfi/education/MiniLessons/chccard.htm>.

See our Web Sites:

Choosing A Credit Card, <http://www.in.gov/dfi/education/chccare.htm>

What Types of Credit Cards and Plans Are There?

There are basically three types of credit cards:

- **Bank cards**, issued by banks (examples, Visa, MasterCard and Discover Card)
- **Travel and entertainment (T&E)** cards, such as American Express and Diners Club
- **House cards that are good only in one chain of stores** (Sears is the biggest one of these, followed by the oil companies, phone companies and local department stores.) By the way, T&E cards and national house cards have the same terms and conditions

wherever you apply.

You may also be familiar with what is known as an affinity card. This card -- typically a MasterCard or Visa -- carries the logo of an organization in addition to the lender's emblem. Usually, these card holders derive some benefit from using the card -- maybe frequent flyer miles or points toward merchandise. The organization solicits its members to get cards, with the idea of keeping the group's name in front of the card holder. In addition to establishing brand loyalty, the organization receives some financial incentive from the credit card company; this is a fraction of the annual fee or the finance charge, or some small amount per transaction, or a combination of these,

No one card is right for everyone. Basically, the right card for you is one that's accepted where you shop and charges you the smallest amount of money for the services you use. Almost any U.S. business or establishment that takes MasterCard also takes Visa, and vice versa. (If you only spend money in the U.S., you probably don't need both.)

The All-Important Plan

Now we come to the core of the credit card selection process -- which plan to choose. The costs and terms of your credit card plan can make a difference to how much you pay for the privilege of borrowing (which is what you're doing when you use a credit card).

In the disclosure form from the credit card issuer (usually a small, fine print brochure), look closely at the credit terms we discussed earlier. Don't forget about specifics like late charges (usually \$15-\$30) and over-the-limit fees (around \$20-\$25). Consider these factors along with how you pay your bills each month.

For example, if you always pay your monthly bill in full, the best type of card is one that has no annual fee and offers a grace period for paying your bill before finance charges kick in. If you don't always pay off your balance each month (and 7 out of 10 American card holders fall into this category), be sure to look at the periodic rate that will be used to calculate the finance charge.

Variable vs. Fixed Rate Plans

Credit card companies that issue variable rate plans use indexes such as the prime rate, the one-, three- or six-month Treasury Bill rate, the federal funds or Federal Reserve discount rate. (Most of these indexes can be found in the money or business sections of major newspapers.)

Once the interest rate corresponding to the index has been identified, the credit card issuer then adds a number of percentage points — called the margin — to this index rate to come up with the rate the consumer will be charged. In some cases, the issuer might choose to use another formula to determine the rate to be charged. These issuers multiply the index or index plus the margin by another number, the "multiple," to calculate the rate.

Take a good look at fixed rate plans. They may be a couple of percentage points higher than a variable rate, but you will have the advantage of knowing what your interest rate will be. Variable rates are just that — they change — and can increase (usually the case) or decrease your finance charges.

If your rate is fixed, the Truth in Lending Act requires the lender to provide at least 15 days notice before raising the rate. In some states, there are laws that require more notice. Some financial analysts argue that because a fixed rate can be increased with only a 15-day notice, this plan is not that different from a variable rate plan, which is subject to change at any time. They advise looking closely at both plans. If you do choose a variable rate card, check to see if there are caps on how high or how low your interest rate can go. If the lowest variable rate possible on your card, for example, is 15.9 percent and rates are trending downward, you may want to switch your card to another lender.)

Few experts will argue with the fact that a low interest rate is a good thing. To illustrate the importance of a low interest rate, let's look at a simple example of how much your annual savings might be if you switch to a credit card plan with a lower interest rate and no annual fee. In this example, the average monthly balance carried forward equals \$2,500, which is about the national average for consumers with credit card debt. Total annual savings in this example — \$120.

Plan Terms	Plan A	Plan B
Average monthly balance	\$2,500	\$2,500
APR	.18	.14
Annual finance charges	\$450	\$350
Annual fee	\$20	\$0
Total cost	\$470	\$350

How Much Will My Payments Be?

Some credit cards, such as American Express, require you to pay off all your charges each month. As a benefit, they usually have no finance charge and sometimes, no maximum limit. Most cards, including Visa, MasterCard, Discover, and Optima, offer what is known as revolving credit. This means they let you carry a balance, on which they charge interest (finance charges), and they require you to make a minimum payment. The minimum payment is usually about 3-5 percent of your current balance or \$10 -- whichever is more.

Here are three of the ways financial institutions calculate finance charges:

- **Adjusted balance** -- This system, which consumer experts say favors the card holder, takes the balance from your previous statement, adds new charges, subtracts the payment you made and then multiplies this number by the monthly interest rate.
- **Average daily balance** -- This method, which is a pretty even-handed one and the most commonly used, works like this: The company tracks your balance day-by-day, adding charges and subtracting payments as they occur. At the end of the period, they compute the average of these daily totals, then multiply this number by the monthly interest rate to find your finance charge.
- **Previous balance** -- Credit card companies and lending institutions that use this method generally come out ahead, according to consumer experts. They multiply your previous

statement's balance by the monthly interest rate to find the new finance charge. (This means you're still being charged interest on your balance a whole period after you've paid it down!)

What you pay will vary, depending on your balance, the interest rate and the way your finance charge is calculated. Here are a couple of examples that show how much difference the interest rate can make in what you actually end up paying:

- **High-rate card:** Suppose you charge \$1,000 on a 23.99% credit card. After that, you make no further charges and pay only the minimum each month. The payment will start at \$51 and slowly work its way down to \$10. You'll make 77 payments over the next six years and five months. By then, you will have paid \$573.59 in interest for your credit privilege.
- **Low-rate card:** If you charge that same \$1,000 on a 9.9% fixed-rate card, the minimum monthly payment will start at \$50.41 and go down to \$10. You'll make 17 fewer payments and pay \$176 in interest. This saves you \$397.59!

Newer credit card charges -- used by virtually all the companies in the last decade or so -- are late fees and over-the-limit fees. And increasingly, credit card issuers are drastically raising interest rates (to as high as 23.99%) after a set number of late payments (read the fine print and make sure you know whether the payment is considered posted on its postmarked date or on the date the bank or credit card company gets it posted!). Unfortunately, once you have a couple of late payments, the credit card company can charge you the inflated interest rate for the remaining life of the account! (Try to avoid this, since all credit card companies report your payment record to credit reporting agencies and even a few late payments could cause you problems when you try to buy a car or a house.)

Credit Card Statement

A credit card statement provides information such as how and when you've used your credit card, how much you owe, how much interest you're paying to use the card, how much your minimum payment is, and how much credit you have left. The statements also gives you the periodic interest rate, total finance charges, the balance upon which your finance charges were computed, any late charges, over-the-limit charges, transactions fees, and on the back of the statement is usually given your billing rights in case of an error and who to send your billing dispute to.

Knowing how to read your credit card statement can also help you catch unauthorized charges and/or billing errors. The following is an example of a credit card statement:

Your First Bank		CREDIT CARD STATEMENT		SEND PAYMENT TO Box 1234 Anytown, USA 54321	
ACCOUNT NUMBER 4321-1234-5432		NAME JOHN DOE		STATEMENT DATE 2/13/02	
				PAYMENT DUE DATE 3/09/02	
NEW BALANCE \$125.24		CREDIT LINE \$1,200.00		CREDIT AVAILABLE \$1,074.76	
				MINIMUM PAYMENT DUE \$10.00	
REFERENCE	DATE SOLD	DATE POSTED	ACTIVITY SINCE LAST STATEMENT		AMOUNT
483GE7383		1/25/02	PAYMENT		-168.80
32F349ER3	1/12/02	1/15/02	RECORD RECYCLER		14.83
89102DIS2	1/13/02	1/15/02	BEEFORAMA REST		30.55
NX34FJD32	1/18/02	1/18/02	GREAT EXPECTATIONS		27.50
84RT3293A	1/20/02	1/21/02	DINO-GEL PETROLEUM		12.26
873DWS321	2/09/02	2/09/02	SHIRTS'N SUCH		40.10
Previous balance (+)		168.80	Current Amount Due		125.24
Purchases (+)		125.24	Amount Past Due		
Cash Advances (+)			Amount Over Credit Limit		
Payments (-)		168.80	Minimum Payment Due		10.00
Credits (-)					
FINANCE CHARGES (+)					
Late Charges (+)					
NEW BALANCE (=)		125.24			
FINANCE CHARGE SUMMARY		PURCHASES ADVANCES		For Customer Service Call: 1-800-XXX-XXXX	
Periodic Rate		1.65% .		For Lost or Stolen Card, Call: 1-800-XXX-XXXX	
ANNUAL PERCENTAGE		1.65%		24-Hour Telephone Numbers	
RATE		19.80% 19.80%			
See reverse side for Billing Error Information.					

What If There Are Errors on My Bill?

One way to avoid billing errors and unjustified fees is to carefully go through your monthly credit card statement, making sure all the transactions are legitimate and that other charges -- finance charges, late, or over-the-limit charges -- are justified.

The Fair Credit Billing Act applies to credit card and charge accounts and to overdraft checking (but not to checks or debit cards). You can use this Act to defend against billing errors, unauthorized use of your account, goods or services charged to your account but not received or not provided as promised, and charges for which you request an explanation or written proof of purchase. Here are some important steps to take when you encounter one of these problems:

- Write to your card issuer or creditor within 60 days after the first bill containing the disputed charge is mailed to you. (Even if more than 60 days has passed since you were billed for the item, you still might be able to dispute the charge if you only recently

learned about the problem.)

- Send your letter to the address provided on the bill -- do not send the letter with your payment. (To be sure that your letter is received and that you will have a record of its delivery, you might want to send it by certified mail, with a return receipt requested.)
- In the letter, give your name, account number, the date and amount of the disputed charge and a complete explanation of why you are disputing the charge.
- If you follow these steps, the creditor or card issuer must acknowledge your letter in writing within 30 days after receipt and must conduct an investigation within 90 days. While the bill is being investigated, you don't have to pay the amount in dispute. (The creditor or card issuer is not allowed to take action to collect the disputed amount, report the amount as delinquent or close or restrict your account during this time.)
- If it is determined that there was an error or that you don't owe the amount you're being held responsible for, the card issuer must credit your account and remove any finance charges or late fees relating to the amount not owed. For any amount still owed, you have the right to an explanation and to copies of documents that prove you owe the money. If the bill is correct, you must be told in writing what you owe and why. You will owe the amount disputed plus any finance charges.

There are a number of non-profit and non-commercial organizations that provide credit information and assistance to consumers. Check out the **National Consumer Law Center**, <http://www.consumerlaw.org> and the **Citizens for Fair Credit Card Terms**, <http://www.cardratings.org> .

Can I Use Any Credit Card When I Travel Abroad?

Credit card usage and acceptance vary around the world. For example, in some countries (including France), Visa and MasterCard networks have been merged and all merchants who take one, take them both. On the other hand, the cash advance networks have not been merged. So, if you are in France, for example, almost any bank or ATM (if you have a four-digit PIN) can give you a cash advance on Visa, but only a few banks and cash machines (and all post offices) can give you a MasterCard cash advance.

In other countries (such as Italy), Visa and MasterCard networks have not merged. So, if you're going there, you might need both.

American Express and other T&E cards were originally aimed at an upscale market, catering to this group by offering check cashing, mail-holding, and cash advance services to traveling cardholders. (Now, Visa, MasterCard and others offer some of the same services.) AmEx and Diners Club are widely accepted in the United States, although not as widely as Visa and MasterCard.

In Europe, there are increasingly few places that accept only Diners Club or only American Express. In France, you can use American Express at more places than in the United States; in Italy, Germany, England, and Greece, you can use it less, in general, except in shops with special appeal to tourists. Be sure to check out the credit card situation before you travel.

Is It Safe to Use Credit Cards on the Internet?

Although the numbers are increasing, consumers are still not using their credit cards on the Internet nearly as much as e-tailers (electronic retailers) would like. That's why many cyber-merchants continue to offer a toll-free order number so that shoppers have the choice of calling. Cyber-shopping may be convenient -- and some people do all their shopping online -- but credit card fraud is always a threat, both on the Internet and out in the real world. Hackers have found ways to steal credit card numbers from Web sites.

To illustrate the importance of tight security, a network TV reporter, tipped off about loose security on an Internet Web-hosting site, was able to gain access to about 1,500 customer records, which included everything from credit card numbers and payment records to comments about particular customers.

These are the kinds of stories that deflate consumer confidence. Some e-tailers blame consumer reluctance on their inability -- from cyberspace -- to make the kind of personal contact that a shopper gets when he looks into the eyes of a store merchant. Experts say that this kind of comfort level will be boosted when online payment methods and security measures are standardized -- much as they are in the retail and mail-order industries.

While Internet companies have taken responsibility for security breaches and resulting losses to credit card users, there remains the growing problem of people who use stolen credit cards to make purchases on the Internet. And unfair or fraudulent practices by credit card companies are not commonplace, but they do happen. The good news is that consumers are protected by law - in case of credit card fraud online or off, you are only liable for a maximum of \$50 of the amount stolen.

If the mailing list issue bothers you -- and it bothers most of us -- pay attention when you're completing that credit card application. Some application forms now provide a box that you can check to allow or disallow the sales of your information to mailing lists. You can also protect yourself by taking your name off the credit bureaus' mailing lists.

When you write to these companies, include your complete name, name variations and mailing address, Social Security number and signature and state clearly that you want your name removed from their mailing lists. You can write or call either of these major reporting bureaus and they will contact the other major bureaus with your request:

- **Experian** Consumer Opt Out, 701 Experian Parkway, Allen, Texas 75013; 1-800-353-0809
- **Equifax** Inc. Options, P.O. Box 740123, Atlanta, Ga. 30374-0123; 1-800-556-4711
- **Trans Union** Consumer Relations, 760 West Sproul Road, P.O. Box 390, Springfield, PA 19064-0390, (800) 916-8800

Other Things to do to Protect Credit Card Accounts

These tips are important and universal:

- Sign your card -- as soon as you receive it! (Obviously, this only works as well as the clerk checking it!)
- When you use your card at an ATM, enter your PIN in such a way that no one can easily memorize your keystrokes.
- Don't leave your receipt behind at the ATM -- your PIN and account number from a discarded receipt could make you vulnerable to credit card fraud. Also, don't throw out your credit card statement, receipts or carbons without first shredding them!
- Never give your credit card number over the telephone unless you initiated the call. Even when you place the call to a legitimate merchant (such as a mail order company), never give your card number out over a portable phone. Scanners that eavesdrop on these conversations are available for a few hundred dollars at Radio Shack and your voice can be received by one from a far greater distance than the maximum useful range of your cordless phone. One common scam is someone calls you back claiming to be from the merchant and tells you that there was a problem with your card number -- would you mind giving it to them again. The best thing to do is to ask them to read you the number they have -- and then to change any incorrect numbers.
- Ignore any credit card offer that requires you to spend money up-front or fails to disclose the identity of the card issuer.
- Make certain you get your card back after you make a purchase (one habit to observe is to leave your wallet open in your hand until you have the card back). Also, make sure that you personally rip up any voided or cancelled sales slips.
- Always keep a list of your credit cards, credit card numbers and toll-free numbers in case your card is stolen or lost.
- Check your monthly statement to make certain all charges are your own, and immediately notify the card issuer of any errors or unauthorized charges. (More on this later!)

See our Web Sites on Credit Cards: http://www.in.gov/dfi/education/CIcredit_card_infor.htm

See Interactive Credit Card Calculators:
http://www.in.gov/dfi/education/links_to_interactive_tool_calcul.htm##cards

CREDIT CARD COMPARISON WORKSHEET

[illegible]

DISCUSSION QUESTIONS AND TOPICS

1. Explain what the number are for on a credit card. What is the purpose of the strip on the back of the credit card.
2. How do merchants authenticate a credit card purchase.
3. What is a "Smart Card"?
4. What are the qualifications for a credit card?
5. Discuss how costs and features can vary between credit cards.
6. What is the difference between a fixed rate and a variable rate?
7. What should you do if there is an error on the credit card billing statement?

ACTIVITY

1. Using the form provided, ask teams of students to shop for three credit cards (two major credit cards and one from a local department store). When they've finished their research, ask them to answer a series of questions about their findings.
2. When all the teams have finished their research and completed the questions, have each team explain to the class how they determined which credit card they would recommend for purchasing a CD player. Have the class critique the logic each team used to arrive at their decision.
3. Have students apply their findings by making decisions about the kind of card they would use to purchase a CD player.
4. Have students take a close look at a credit card statement and see what information it contains.
5. Using the credit card statement provided, have students answer the questions on the statement.

Give students a copy of our Brochures.

Give students the Credit Card Quiz that follows questions on the credit card statement

Use the Credit Card Statement to Answer These Questions

1. What is the date of the statement?
2. What is the ANNUAL PERCENTAGE RATE (APR)?
3. What is the corresponding periodic rate?
4. What is the new balance?
5. What was the previous balance?
6. How many charges were made during the billing cycle?
7. How many credit and payments were made during the billing cycle?
8. Were there any charges for late payments? How much are the late charges?
9. What is the total amount of the credit line?
10. What is the total amount of available credit?
11. What is the total amount of charges made during the current billing period?
12. Was there a finance charge for the current billing cycle?
13. What is the account number on the statement?
14. Where should the payment be sent?
15. What is the periodic rate for cash advances?
16. Where is the billing error information.

CREDIT CARD QUIZ

1. A priority credit card is usually accepted by one type of store or company.
☐ True ☐ False
2. The average daily balance method of calculating interest is based on the opening balance of the account for the previous month.
☐ True ☐ False
3. The annual fee for a credit card is set by the government.
☐ True ☐ False
4. APR measures the interest rate charged by a credit card.
☐ True ☐ False
5. If someone uses your lost or stolen credit card, you are liable for no more than \$50.
☐ True ☐ False
6. A credit card issued through a credit union would be an example of a (fill in the blank) card.
 - ☐ bank
 - ☐ travel and entertainment
 - ☐ store
 - ☐ priority
7. The grace period refers to the time:
 - ☐ taken to process a credit card application.
 - ☐ for paying an account without an interest charge.
 - ☐ allowed to notify a credit card company of a billing error.
 - ☐ used for calculating interest.
8. Comparing the APR among several credit cards allows you to obtain the:
 - ☐ longest grace period.
 - ☐ lowest annual fee.
 - ☐ lowest interest rate.
 - ☐ least expensive method of calculating interest.
9. If a billing error occurs on a credit statement, a consumer has (fill in the blank) days to notify the creditor.
 - ☐ 30
 - ☐ 60
 - ☐ 90
 - ☐ 120

CREDIT CARD QUIZ ANSWERS

1. A priority credit card is usually accepted by one type of store or company.

☐ True

2. The average daily balance method of calculating interest is based on the opening balance of the account for the previous month.

☐ False

3. The annual fee for a credit card is set by the government.

☐ False

4. APR measures the interest rate charged by a credit card.

☐ True

5. If someone uses your lost or stolen credit card, you are liable for no more than \$50.

☐ True

6. A credit card issued through a credit union would be an example of a (fill in the blank) card.

☐ bank

7. The grace period refers to the time:

☐ for paying an account without an interest charge.

8. Comparing the APR among several credit cards allows you to obtain the:

☐ lowest interest rate.

9. If a billing error occurs on a credit statement, a consumer has (fill in the blank) days to notify the creditor.

☐ 60

SOURCES OF ADDITIONAL INFORMATION

Articles

Charged For An Item You Didn't Buy? Do This, Clark, Brian L., Money Magazine, p. 50, (September 1995).

Confessions of a Credit Card Surfer, Tarasovic, Janet, Kiplinger's Personal Finance Magazine, pp. 73-76, (February 1996).

Credit card deals--with strings attached, from Your family finances, Longo, Tracey, Kiplinger's Personal Finance Magazine, pp. 34-37, (February 1995).

Does your credit card match your style? From Shopping Smart, Sheets, Ken, Kiplinger's Personal Finance Magazine, pp. 112-116, (January 1995).

House Of Cards: Some Credit-Card Companies Use Deceptive Tactics To Lure You In - and Charge You Usurious Rates; Here's How To Avoid The Traps, Consumer Reports Magazine, pp. 31-34, (January 1996).

I Chucked My Credit Cards And Saved More Than \$150 A Month, Sinanoglu, Elif, Money Magazine, pp. 64-66, (August 1996).

Many standard cards outshine gold ones now, from Your money monitor, Hube, Karen, Money Magazine, p. 38, (January 1996).

Playing Your Cards Right When You Use Plastic, Stone, Amey, Business Week Magazine, pp. 150-151, (November 28, 1994).

Rebate cards that are worth the high price, Sinanoglu, Elif, Money Magazine, pp. 45-50, (December 1995).

There's Help On The Way If You Face A Card Dispute, Stark, Ellen, Money Magazine, pp. 41-42, (May 1996).

Your credit card's consumer protection powers--and how to tap them, from Shopping Smart, Moreau, Dan, Kiplinger's Personal Finance Magazine, pp. 160-163, (March 1994).

Your ultimate guide to a super credit-card deal, Stark, Ellen, Money Magazine, pp. 34-38, (September 1996).

Pamphlets

Available free from: Federal Reserve Bank of Chicago, P.O. Box 834, Chicago, IL 60690-0834:

ABC's of Figuring Interest (1994)

Credit Guide (1993)

Points of Interest. What Determines Interest Rates? (1993)

Available free from: Mastercard, Telephone: 1-800-999-5136:

Credit Card Basics (1993)

Available free from: Visa U.S.A. Telephone: 1-800-235-358:

Credit Cards: An Owner's Manual (1992)

Available for \$1.00 each from: Bankcard Holders of America, Customer Relations, 524 Branch Drive, Salem, VA 24153.

Credit Cards: What You Don't Know Can Cost You (1992)* *Traveling With Your Credit Cards (1994)

Available free from: Consumer Action, 116 New Montgomery Street, #233, San Francisco, CA 94105:

Saving Money on Credit Cards (1994)* *Understanding Credit Card Costs (1994)

Available free from: Board of Governors of the Federal Reserve System, Publication Services, Washington, DC 20551:

The Card You Pick Can Save You Money (1995)

Web Sites

Federal Web site on Shopping for Credit Cards: <http://federalreserve.gov/pubs/shop>

The Federal Trade Commission (FTC) offers free booklets on credit and other topics of consumer interest. Access the FTC **ConsumerLine**, <http://www.ftc.gov>. Or get a free copy of Best Sellers, a complete list of FTC publications, from Public Reference, Federal Trade Commission, Washington, D.C. 20580; (202) 326-2222; TDD: (202) 326-2502.

The Federal Consumer Information Center publishes the free Consumer Information Catalog, which lists more than 200 publications from a variety of federal agencies, including credit. Access the Catalog, <http://www.pueblo.gsa.gov>, and its full-text entries or write to Catalog, Consumer Information Center, Pueblo, CO 81009. Or call them at (719) 948-4000.

American Express Company offers free consumer booklets on a variety of credit subjects. To order, contact: American Express Company, P.O. Box 4635, Trenton, NJ 08650-4635. For information about students and credit, you can visit **The Money Pit at American Express University**, <http://www.americanexpress.com/student> or access **American Express Company**, <http://www.americanexpress.com> .

Credit cards are a great modern invention and are quick, convenient, and helpful in a wide variety of circumstances. However, teens can be especially vulnerable to credit difficulties and need to be cautioned about the pitfalls of credit cards. A credit card may seem like a "free ride" to many untried and unsuspecting young people and they end up accumulating a large debt long before they have the earning power to pay it off.

Around 6 million full-time college undergraduates now have credit cards. It doesn't matter that they have no income or credit history; card companies figure they'll get a job that can pay the bills. Parents don't have to cosign. In fact, you might not even know your kids have cards. But if they overspend, the card companies hope the parents will come to the rescue and pay the bill. Some firms even ask for parental income on the student's credit-card application.

It pays students who use credit responsibly to get a student card. They'll never get such easy credit again. But some students get so far into debt that they ruin their credit rating before they graduate. Two out of three undergraduates have at least one credit card and 27% of them have four or more cards according to a recent study by a national educational loan provider. The average credit card balance for undergraduates is \$1,879.

If your child gets a card, make sure he or she understands the significance of a clean credit history. Also explain why it's important to pay more than the minimum every month. The student who racks up a \$1,000 credit-card bill in the freshman year and pays only the low minimum each month will finish a bachelor's degree, a master's program, and still need three and a half years to pay off that freshman spending spree.

Credit card applications have been invading the mailboxes of high school students too.

HOW TO HELP PREPARE A CHILD FOR CREDIT RESPONSIBILITY

- ◆ Help teens set up a budget, open a checking account, and decide if or how credit cards can be used during young adult years.
- ◆ Consider various credit companies before acquiring a card. Read the contract carefully and talk with teens about terms and conditions found in the small print.
- ◆ Show teens what happens to a balance if only the minimum amount is paid monthly.
- ◆ Help them figure out how long it will take to repay the loan and what the actual cost of the item will be after all credit charges have been added.
- ◆ Explain that if he/she pays late or less than the minimum, he/she can be penalized with fees (up to \$30 per infraction) and a higher interest rate. Discuss what may happen when dealing with collection agencies.
- ◆ Keep a college student's credit limit low, \$500 to \$1,000, and instruct him/her to use the card only for emergencies. Spell out what is/is not "an emergency."
- ◆ Explain what the term "good credit rating" means, what it is used for, and why it is important to maintain one in today's economy. Discuss the consequences of a bad credit rating.
- ◆ Consider having the bills sent to your address so you can see they are paid on time.
 - ◆ Tell your child to keep the card in a safe and secret place and to notify the card issuer immediately if it is lost or stolen.
- ◆ Recommend that students who choose to use credit cards limit themselves to one card and pay off the balance in full each month.

IF TEEN IS ALREADY IN TROUBLE

If your child is already in trouble, don't delay action:

Call your child's creditors before he defaults to avoid negative marks on his credit report. Ask them to lower interest rates or suspend new interest charges for six months. Get the new terms in writing.

If you decide to pay off the balance, ask the creditor to remove any penalty or legal fees and all negative marks they've put on your child's credit report. Before you hand over any money, get a letter confirming the agreed-upon amount is "payment in full" and that no further action will be taken. **Tip:** For help negotiating, call the nonprofit organization: Consumer Credit Counseling Services at 1-800-388-CCCS or visit Debt Counselors of America's web site at www.dca.org.

Consider a debt consolidation loan only if it will lower the interest rate, not just the monthly payment.

Check your child's credit report a few weeks later. If there are negative remarks, send the credit bureau copies of correspondence confirming your agreement.

Protect Your Child's Privacy:

Call 1-888-466-6936 for facts every concerned parent needs to know about protecting their child's privacy.



The Indiana Department of Financial Institutions,
Division of Consumer Credit has many other credit
related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Scoring for Credit
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the cover for
a copy of any of the brochures listed or for further consumer
credit information.



WARNING TO CREDIT CARD KIDS



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880



SHOP FOR YOUR CREDIT CARD

Smart consumers comparison shop when looking for credit such as a mortgage or an auto loan. It is also a good practice to engage in when choosing a credit card. The choices you make can save you money.

Shop among some of the credit card issuers listed in this brochure. Compare them with cards you already have and with offers you receive in the mail for the terms that best suit your spending and repayment habits.

Key credit terms to consider in the credit card agreement are:

Annual Fee - a flat, yearly charge similar to a membership fee. Many credit card issuers charge an annual fee for granting you credit, typically \$15 to \$55. Some issuers charge no annual fee.

Annual Percentage Rate (APR) - the cost of credit expressed as a yearly rate.

Finance Charge - The dollar amount you pay to use credit. Besides interest costs, it may include other charges associated with transactions such as cash advance fees.

Transaction Fees and Other Charges- Some issuers charge a fee if you use the card to get a cash advance, if you fail to make a payment on time, or if you exceed your credit limit. Some may charge a flat fee every month whether you use the card or not.

Grace Period - A time, usually 25 days, during which you can pay your credit card bill without paying a finance charge.

Average Daily Balance - A balance calculation method most creditors use in calculating their finance charge. The average daily balance is calculated by adding each days balance and dividing the total by the number of days in the billing cycle.

Adjusted Balance Method - This balance used to calculate the finance charge is derived by subtracting the payments you've made from the previous balance. This method is most favorable to the customer.

CREDIT CARD FEATURES TO CONSIDER

Smart consumers find the best deal for their budgets and repayment styles. If you always pay your monthly bill/s in full, the best type of card is one that has no annual fee and offers a grace period for paying your bill without paying a finance charge.

If you don't always pay off the credit card balance/s at the end of the month, be sure to look at the annual percentage rate.

Example:

Terms	Card A	Card B
Average monthly balance	\$2,500	\$2,500
APR	x .18	x .14
Annual finance charges	\$ 450	\$ 350
Annual fee	+ \$20	-0-
Total Cost	\$ 470	\$ 350

Other features to consider are enhancements to the credit card that the issuer offers. Enhancements can include cash rebates, purchase protections, warranty guarantees, and usage incentives such as frequent flyer miles.

CREDIT CARD PLANS

The following credit card list is subject to change. Readers are encouraged to contact the credit card issuer for current rates and to learn about their other credit plans.

Codes Used in the Credit Card Plan List:
M = Master Card F = fixed rate
V = Visa V = variable rate
N = national R = only in selected states
T = tiered pricing, different rates for balance levels
State abbreviation = only in state specified
(G) = Gold Card (P) = Platinum Card

Institution, Plan & Availability	APR	Grace Period Days	Annual Fee	Telephone
Abbott Bank,MC,N	17.60V	25	0	800-426-6420
AFBA Ind Bk, V, N	VPrime +3.49	25	0	800-776-2265
Amalgamated Bk, M, N	VPrim + 4.5	25	0	800-723-0303
Baybank, M, N	16.90V	0	\$21	800-221-3393
Capital One (P)	9.9 Cash adv. 19.8	25	0	800-822-3397
Central Carolina, M, N	VPrime + 2.5	25	\$29	800-334-1073
Chevy Chase Bk, V, N	V Prime + 5.15	25	\$20	800-937-5000
Citibank, V, N	V Prime + 9.4	25	0	800-950-5114
Citizens TC, V, N	V Prime +7.15	25	0	800-922-9999
Columbus Bk, V, N	14.9V	25	12	800-348-8900
Crestar Bk, V, N	V Prime + 6.9	25	20	800-368-7700
FCC NB, V, N	V Prime + 9.9	25	0	800-368-4535
Fifth Third Bk, M, R	V Prime + 5.9	25	18	800-472-3030
1st of Am. Bk, M, N	V Prime + 8.4	25	0	800-423-3883
1st USA Bk, V, R	13.99F	25	0	800-955-9900
1st USA Bk, (P)	9.99	25	0	800-294-2993
GE Capital, M, N	19.8F	25	0	513-677-6736
Household Bk, V, N	15.65V	25	15	800-477-6000
Huntington Bk, V, IN (P)	V Prime	25	75	800-480-2265
Huntington Bk, V, IN (G)	V Prime + 1	25	49	800-480-2265
Huntington Bk, V, IN (G)	V Prime + 4.49	25	0	800-480-2265
Mellon Bk, M, N	V Prime + 8.25	20	35	800-753-7011
NBD, Skokie V, R	V Prime + 8.25	15	0	800-766-4623
Oak Brook Bk, M, N	V Prime + 4.9	25	17	800-666-1011
Peoples Bk, V, N	13.90F	25	25	800-426-1114
Providian Ban Cor, V, R	13.9V	25	0	800-964-6000
Pulaski Bank & Trust	9.45	25	50	800-980-2265
Pullman Bank & Trust (G)	VPrime +3	25	0	800-785-5626
Security NB, V, R	12.87V	25	18	800-356-8085
Simmons First Nat'l (G)	9.5	25	50	800-636-5151
Union Fed, V, IN	11.5F	25	0	800-284-8835
Union Planters, M,N	V Prime +3.75	25	29	918-664-1400
USAA Savings (G, P)	VPrime + 1	25	45	800-022-9092

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
- Credit and Divorce
- Credit and Older Consumers
- Deep in Debt?
- Equal Credit Opportunity
- Fair Credit Reporting
- Fair Debt Collection
- Gold Cards
- Hang up on Fraud
- High Rate Mortgages
- Home Equity Credit Lines
- How to Avoid Bankruptcy
- Indiana Uniform Consumer Credit Code
- Look Before you Lease
- Mortgage Loans
- Repossession
- Reverse Mortgage Loans
- Rule of 78s – What is it?
- Scoring for Credit
- Shopping for Credit
- Using Credit Cards
- Variable Rate Credit
- What is a Budget?
- What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.



CHOOSING A CREDIT CARD



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
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1-800-382-4880



"I got a call from a woman who said I need credit card loss protection insurance. I thought there was a law that limited my liability to \$50 for unauthorized charges. But she said the law had changed and that now, people are liable for all unauthorized charges on their account. Is that true?"

Don't buy the pitch - and don't buy the "loss protection" insurance. Telephone scam artists are lying to get people to buy worthless credit card loss protection and insurance programs.

If you didn't authorize a charge, don't pay it. Follow your credit card issuer's procedures for disputing charges you haven't authorized. Also see our Fair Credit Billing Brochure.

Credit Card Loss

If you report the loss before credit cards are used, the Fair Credit Billing Act says the card issuer cannot hold you responsible for **any unauthorized charges**.

If a thief uses your cards before you report them missing, the most you will owe for unauthorized charges is **\$50 per card**.

This is true even if a thief uses your credit card at an ATM machine to access your credit card account.

However, it's not enough simply to report your credit card loss. After the loss, review your billing statements carefully. If they show any unauthorized charges, send a letter to the card issuer describing each questionable charge.

Again, tell the card issuer the date your card was lost or stolen and when you first reported it to them. Be sure to send the letter to the address provided for billing errors. Do not send it with a payment or to the address where you send your payments unless you are directed to do so.

Worthless Credit Card Loss Protection Offers

The Federal Trade Commission says worthless credit card loss protection offers are becoming more common and fraudulent promoters try to exploit consumers. As a result, the agency is cautioning consumers to avoid doing business with callers who claim that:

- you are liable for more than \$50 in unauthorized charges on your credit card account.
- you need credit card loss protection because computer hackers can access your credit card number and charge thousands of dollars to your account.

- they're from "the security department" and want to activate the protection feature on your credit card.

The Federal Trade Commission advises consumers not to give out personal information - including their credit card or bank account numbers - over the phone or online for any product unless they are familiar with the business and have initiated the contact. Scam artists can use your personal information to commit fraud.

Buying a Registration Service

For an annual fee of \$10 to \$35, companies will notify the issuers of your credit and ATM accounts if your card is lost or stolen. This service allows you to make only one phone call to report all card losses rather than calling individual issuers. Most services also will request replacement cards on your behalf.

Purchasing a card registration service may be convenient, but it's not required. The Fair Credit Billing Act and the Electronic Funds Transfer Act give you the right to contact your card issuers directly in the event of a loss or suspected unauthorized use.

If you decide to buy a registration service, compare offers. Carefully read the contract to determine the company's obligations and your liability. For example, will the company reimburse you if it fails to notify card issuers promptly once you've called in the loss to the service? If not, you could be liable for unauthorized charges.



The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
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Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.



CREDIT CARD LOSS PROTECTION OFFERS

Don't buy the Pitch!

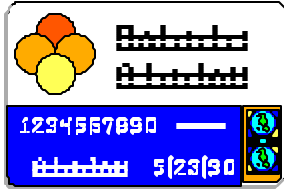


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Most credit cards are unsecured. However, there are three ways in which some credit card lenders take collateral.



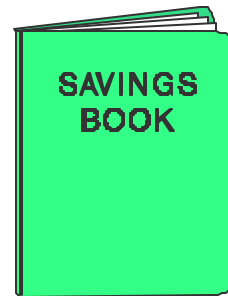
#1 SECURITY INTEREST IN ITEMS PURCHASED



Some credit card lenders, usually store credit such as Sears, claim to take collateral in items purchased with their card. This means that if you have problems making payments, those lenders may threaten to repossess property bought with the card. In addition, personal property collateral may affect your rights if you later need to file bankruptcy.

Most threats to repossess personal property are not carried out. Nevertheless, it is a good idea to know whether the security interest exists. If it does, use another card in preference to that card whenever possible.

#2 YOUR BANK ACCOUNT



Another type of credit card taking a security interest involves card balances secured by a bank deposit. The card allows you a credit limit up to the amount you have on deposit in a particular bank account. If you can't make the payments, you lose the money in the account.

These cards are usually marketed as a good way to establish credit or to reestablish credit if you have had financial problems. They may be useful to establish that you can make regular monthly payments on a credit card after you have had problems in the past.

However, since almost everyone now gets unsecured credit card offers even after previous financial problems, there is less reason to consider allowing a creditor to use your bank deposits as collateral.

It is preferable not to tie up your bank account or to pay interest to a lender for the privilege of establishing that you can afford to make payments.

#3 HOME EQUITY LINE OF CREDIT



Finally, there are increasing opportunities to obtain credit cards in connection with a home equity line of credit. Each time you use the card, the balance is secured against your home.

In many cases these are sold by home improvement contractors as a good way to pay for home improvements. Sometimes the initial amount advanced on such a card is as much as your credit limit.

Home secured credit cards are almost always a bad idea. You should always seek to avoid using high-rate credit secured by your home because the potential consequence of nonpayment if you have financial problems is loss of your family's shelter by foreclosure. You will likely do better if you seek a more traditional home equity credit line from a bank at a lower rate of interest.

In general, all things being equal, you should seek and use credit cards which do not take collateral in preference to those that do. Since interest rates on cards that do take collateral are typically just as high as those on cards that do not, the choice in favor of unsecured cards should be clear.



The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
- Credit and Divorce
- Credit and Older Consumers
- Deep in Debt?
- Equal Credit Opportunity
- Fair Credit Reporting
- Fair Debt Collection
- Gold Cards
- Hang up on Fraud
- High Rate Mortgages
- Home Equity Credit Lines
- How to Avoid Bankruptcy
- Indiana Uniform Consumer Credit Code
- Look Before you Lease
- Mortgage Loans
- Repossession
- Reverse Mortgage Loans
- Rule of 78s – What is it?
- Scoring for Credit
- Shopping for Credit
- Using Credit Cards
- Variable Rate Credit
- What is a Budget?
- What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.



CREDIT CARDS THAT TAKE SECURITY INTERESTS



DEPARTMENT OF FINANCIAL INSTITUTIONS
Consumer Credit Division
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204
317-232-3955, 1-800-382-4880



FAST FACTS

- * Sign your new cards as soon as they arrive.
- * Avoid signing a blank receipt, whenever possible. Draw a line through blank spaces above the total when you sign card receipts.
- * Save your card receipts to compare with your billing statements.
- * Open billing statements promptly and reconcile your card accounts each month, just as you would your checking account.
- * Report promptly and in writing any questionable charges to the card issuer.
- * Never lend your card/s to anyone.
- * Never give your number over the phone unless you are initiating a transaction with a company you know is reputable.

Everyone pays for credit and charge card fraud in higher prices, whether or not they are personally defrauded.

While theft is the most obvious form of credit and charge card fraud, fraud occurs in other ways, as well. For example, someone may use your card number (not the card itself) without your permission. This may occur in a variety of ways:

- * A thief rifles through trash to find discarded receipts or carbons to use the card numbers illegally.
- * A dishonest clerk makes an extra imprint from your credit card or charge card for his or her personal use.
- * You receive a postcard or a letter asking you to call an out-of-state number to take advantage of a free trip or a bargain-priced travel package. When you call, you are told you must join the travel club first. You are asked for your credit card number so you can be billed for the membership fee. The catch? New charges continue to be added at every step and you never get your free or bargain-priced vacation.

HOW TO GUARD AGAINST CREDIT AND CHARGE CARD FRAUD

Here are some suggested precautions you can take to help protect yourself against credit and charge card fraud. You also may want to instruct any other person who is authorized to use your account to take the same precautions.

Sign your new cards as soon as they arrive.

Carry your cards separately from your wallet.

Keep a record of your card numbers, their expiration dates, and the phone number and address of each company in a secure place.

Keep your card in view, whenever you can, after you give it to a clerk. Retrieve your card promptly after using it.

Always keep your credit cards in a safe place. Check periodically to make sure that none are missing.

Avoid signing a blank receipt, whenever possible. Draw a line through blank spaces above the total when you sign card receipts.

Don't leave your receipt in the bag when you have made a purchase.

Void or destroy all carbons and incorrect receipts.

Save your card receipts to compare with your billing statements.

Open billing statements promptly and reconcile your card accounts each month, just as you would your checking account.

Report promptly and in writing any questionable charges to the card issuer.

Notify card companies in advance of a change in address.

Cut up your expired or cancelled credit cards before you throw them out.

Destroy anything with your credit card number on it before you throw it away.

In addition, here are some things you should **not** do:

Never lend your card(s) to anyone.

Never leave your cards or receipts lying around.

Never put your card number on a postcard or on the outside of an envelope.

Never give your number over the phone unless you are initiating a transaction with a company you know is reputable. If you have questions about a company, check with your local consumer protection office or Better Business Bureau before ordering.

Never give out your Social Security number over the phone to someone you don't know.

Don't print your Social Security number on your checks.

WHAT TO DO IF YOUR CARDS ARE LOST OR STOLEN

If your credit or charge cards are lost or stolen, call the issuer(s) immediately. Most card companies have a toll-free number for reporting missing cards. Some companies provide 24-hour service. By law, once you report the loss or theft, you have no further liability for unauthorized charges. In any event, your maximum liability under federal law is \$50 per card.

What To Do About Suspected Fraud

If you suspect that someone has illegally used your credit card, Report it to the police and call the card issuer immediately. Use the special telephone number that many card issuers list on their billing statements. You also may want to follow up your phone call with a letter.

You may be asked to sign a statement under oath that you did not make the purchase(s) in question, but you cannot be required to do so.

You should also contact the three major credit reporting agencies to alert them to the fraudulent use of your card. They have special fraud units established to assist

consumers. They are Equifax (800-685-1111), Trans Union (800-888-4213), and Experian (800-682-7654). You can contact the Associated Credit Bureaus web site at www.acb-credit.com.



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CREDIT & CHARGE CARD FRAUD



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division

30 South Meridian Street, Suite 300

Indianapolis, Indiana 46204

317-232-3955

1-800-382-4880



FAST FACTS

- * When you use a credit or charge card to check into a hotel or rent a car, the estimated amount of the transaction usually is "blocked" from your credit line immediately.
- * When renting hotel rooms or cars, ask clerks how much is being blocked on your credit card to avoid potential problems.
- * In some cases, the amount blocked from your credit line may remain for 10 to 15 days.
- * If you choose to pay your bill with the original credit card, the block is usually removed within a day or two.
- * When selecting a credit card, ask the card issuer how long credit lines are blocked for these transactions
- * If you pay your bill with a different credit card or cash, ask the clerk to release the block.

Have you ever presented your credit or charge card to a store clerk and been surprised when told you were over your credit limit? If this happened soon after you stayed at a hotel or motel or rented a car, the problem may have been caused by credit card "blocking."

HOW CREDIT CARD BLOCKING WORKS

When you use a credit or charge card to check into a hotel or motel or to rent a car, the clerk usually contacts your card issuer electronically with the estimated cost. If the card issuer approves the transaction, your available line of credit is reduced by this amount. This is called a "block" (or "authorization"). For example, suppose you use a credit card to check into a \$100-a-night hotel for five nights. At least \$500 would most likely be blocked on that card. In addition,

hotel and car rental companies sometimes add anticipated "incidental" costs for such things as food, beverages, or gasoline. These amounts can vary widely among merchants.

If you pay your bill with the same credit card you used at the beginning of the transaction, the final actual charge probably will replace the block within a day or two.

If, however, you use a different credit card, cash, or a check to pay for these services, the company that issued the credit card you originally presented might keep the block on for as long as 15 days after you've checked out of the hotel or returned the car.

This delay occurs because the first card issuer does not receive notice of the final charge and, therefore, is not aware that the transaction has been completed. Most card issuers program their computers to retain all blocks that have not been replaced by final charges for a specific number of days.

Issuers often choose a 10 or 15-day period because it is longer than most hotel stays and car rentals. Holding blocks for this long ensures that card holders do not use their entire credit limit before checking out of the hotel or returning their rental car, leaving the hotel or rental car company unpaid. The number of days that blocks are retained varies widely among card issuers.

WHY CREDIT CARD BLOCKING CAN BE A PROBLEM

Consumers who are far below their credit limit probably will not be affected by credit card blocking. But for consumers with charges close to their credit limit, credit card blocking can present problems. For example, consumers who need to use their cards for emergencies may find that, because of this temporary block, they have no credit left to use.

Those consumers who pay for their room or rental car with cash, a check, or a different credit card also may have problems. They may find that they do not have access to the

amount of the block for 10 or 15 days, even though they already have paid the bill in full.

HOW TO PROTECT YOURSELF

If you do not want the aggravation that blocking can cause, you may want to:

- * Consider paying for all hotel, motel, or rental car expenses with the same credit card you used at the beginning of the transaction.
- * When you check into a hotel or pick up a rental car, ask clerks how much is being blocked on your credit line and how that amount was determined.
- * If you pay with a different credit card or cash, ask the clerk to remove the block.

In addition, when selecting among credit cards, ask credit card issuers how long credit lines are blocked for transactions involving hotels, motels, and rental cars. You may wish to choose an issuer that removes blocks more quickly.

FOR MORE INFORMATION

If you have questions or concerns about credit card blocking, write: Credit Card Blocking, Correspondence Branch, Federal Trade Commission, Washington, DC 20580. These comments help the FTC in its law enforcement efforts.

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